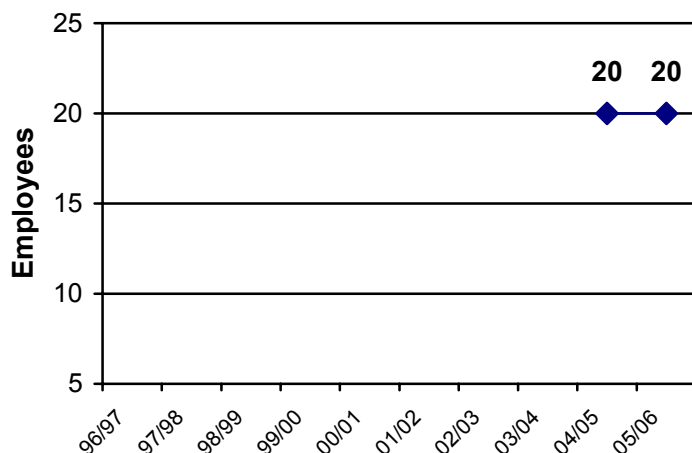


PURPOSE

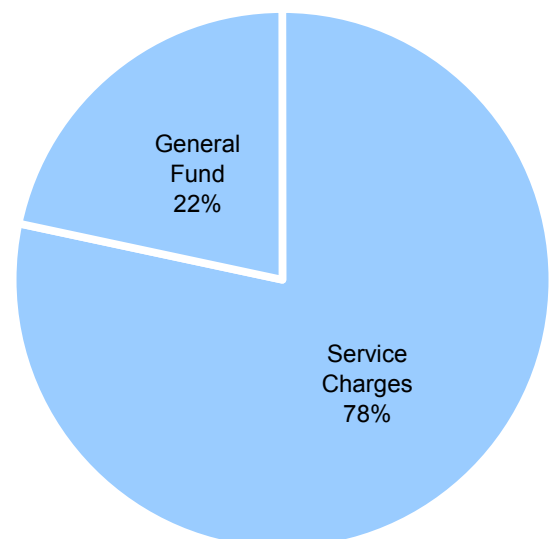
To improve the health of the community by delivering accurate, timely diagnostic test results, expert information and other services needed by health care professionals for patient care.

<u>Financial Summary</u>	<u>2003-04 Actual</u>	<u>2004-05 Actual</u>	<u>2005-06 Requested</u>	<u>2005-06 Recommended</u>	<u>2005-06 Adopted</u>
Revenues	\$ 784	\$ 1,749,750	\$ 2,073,664	\$ 1,953,664	\$ 1,953,664
Salary and Benefits	0	1,291,756	1,359,978	1,359,978	1,359,978
Services and Supplies	0	1,202,268	926,161	1,136,161	1,136,161
**Gross Expenditures	\$ 0	\$ 2,494,024	\$ 2,286,139	\$ 2,496,139	\$ 2,496,139
Less Intrafund Transfers	0	107,319	0	0	0
**Net Expenditures	\$ 0	\$ 2,386,705	\$ 2,286,139	\$ 2,496,139	\$ 2,496,139
General Fund Support (G.F.S.)	\$ (784)	\$ 636,955	\$ 212,475	\$ 542,475	\$ 542,475

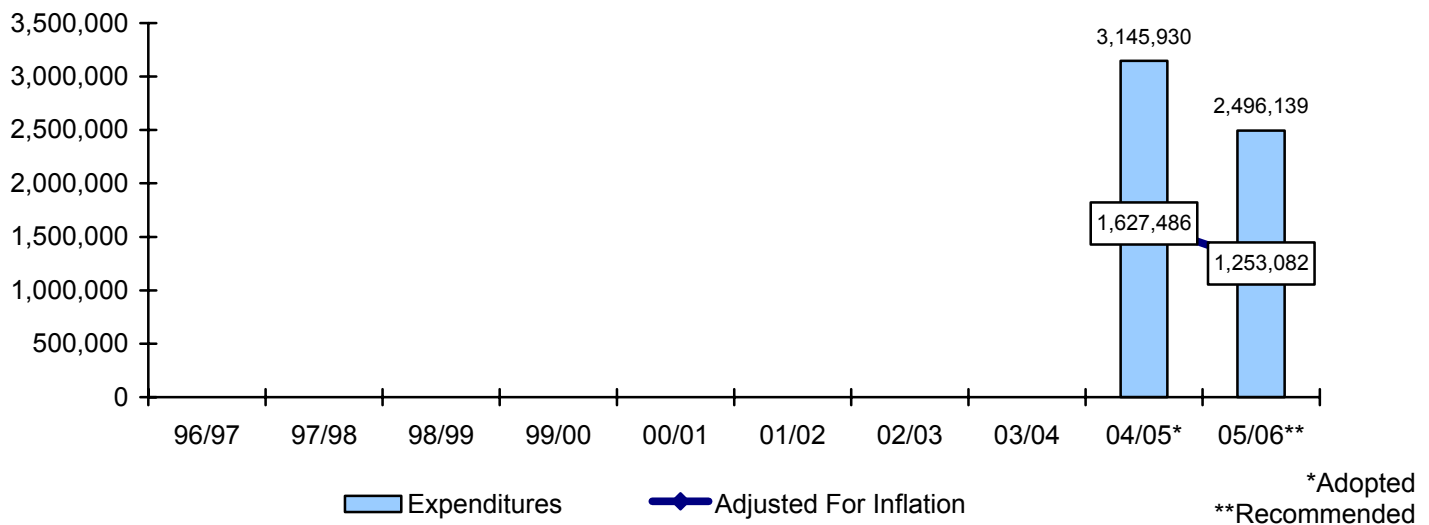
Number of Employees
(Full Time Equivalent)



Source of Funds



10 Year Expenditures Adjusted For Inflation



DEPARTMENT COMMENTS

The requested General Fund budget for the Public Health Department's Clinical Laboratory consists of expenses in the amount of \$2,286,139, revenue in the amount of \$2,073,664 with a corresponding level of General Fund Support in the amount of \$212,475. This is a reduction of \$109,210 from the current fiscal year, as directed by the County Administrator's Office. The level of funding requested will allow the department to continue the same level of resources provided in FY 2004/05. We have submitted no budget augmentation requests.

The Clinical Laboratory was, until this fiscal year, a part of the former Medical Services Department. During its first year of operation as a separate budget unit, it has faced significant challenges. These include the need to implement a new computer laboratory information and billing system. (Nine-month process). Converting from the old computer system required extensive system re-tooling and validation work, which was performed by existing staff. At the same time, the laboratory provided increased service to new Community Health Centers (CHC) clients and to other new private medical providers. This effort required hiring, training and placing additional phlebotomy staff in six new sites this past year to ensure that CHC patients could have their blood drawn on site for tests ordered by their physician.

Testing volume and revenue grew during the first half of FY 2004-05, increasing 16% from the first (99,000 tests) to the second quarter (115,000 tests). The projected total annual test volume for the Clinical Laboratory was 674,435 tests, of which 431,653 (64%) were expected to come from CHC. Based on the data from the second quarter of FY 2004-05, annual CHC testing volume was projected at 220,023 tests (49% of original projection.). Total annual testing volume of 444,720 tests or, 66% of the original 674,435 tests was projected.

In its model, the Clinical Lab expected to receive a mix of payer sources, which are shown below, along with the actual mix seen during the first half of FY 2004-05:

PAYOR SOURCES	EXPECTED	ACTUAL
CMSP	4%	4%
Insurance	24%	20%
Medi-Cal	24%	24%
Medicare	22%	29%
Self-Pay	6%	7%
Clinics/Physician Guarantors	20%	16%
	100%	100%

The Clinical Laboratory coordinates closely with the Public Health Laboratory; the two laboratories operate as a team, which optimizes efficiency for shared functions such as courier, laboratory computer, billing and financial administration. An upcoming challenge is one example. It is desirable for physicians using either the Clinical or Public Health Laboratories to be able to have direct access to their patient's laboratory results from their own computer. Because both laboratories share a single Laboratory Computer Information System, both laboratories are working together with its computer vendor to implement this future improvement in the coming fiscal year.

COUNTY ADMINISTRATOR'S COMMENTS AND RECOMMENDATIONS

Historically, the clinical lab was operated as an ancillary service to the County hospital and outpatient clinics. In addition, many private sector patients had been referred to the lab by their physicians. When the Board was considering contracting with the Community Health Centers of the Central Coast (CHC) to assume and expand outpatient services, some employees and users of the clinical lab advocated its continued operation was necessary to ensure timely test results. It was also suggested that continued private sector use of the lab, coupled with redirection of CHC's existing patients to our lab, would allow the clinical lab to operate with little or no funding from the County after an initial investment of funds for equipment upgrades. Based on this, the Board directed staff to continue operation of the clinical lab for a one year period so that it could be determined if the financial projections were accurate.

After 10 months of operation as a freestanding unit, it appears that a significantly higher level of General Fund money will be needed than the \$200,000 that was projected by clinical lab staff last year. The department's requested level of funding was for FY 2005-06 submitted in February, prior to its review of expenditures and revenue through the end of the third quarter (March 31st). After reviewing the third quarter financial information, the department submitted revised expenditure and revenue data to our office. The Administrative Office's recommendation reflects the revised fiscal information.

A significant obstacle to achieving the targeted financial results appears to be an increasing number of other providers entering the market (both locally and out-of-the-area). In order to maintain competitive rates needed to attract patients, the clinical lab would either have to significantly increase its volume or continue to seek an increasingly greater amount of General Fund Support. Our ability to increase volume is diminished due to the increased number of labs in the community. Additionally, other labs have improved turnaround times for test results and this makes them more attractive to patients and medical providers.

In anticipation of the Board's review of this issue at the conclusion of the fiscal year, Health Agency staff will begin the process of identifying options for the Board to consider. As part of that analysis, staff will identify whether sufficient alternatives exist to continue the same level of service if the County's clinical lab were to be closed. Depending on if – and when – the Board decides to close the clinical lab, some portion of the increased level of General Fund Support may be returned to the General Fund.

BOARD ADOPTED CHANGES

None.